



## **Research Criteria of Investment Management Firms**

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## Abstract

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<p>This bachelor's thesis was conducted for the International Business Degree Programme with a major in Finance and Accounting. This author delves into the multifaceted criteria employed by investment management companies in the selection of companies for investment portfolios. The focus is to uncover the nuanced interplay and relative importance of each referenced criterion in shaping investment decisions.</p> <p>The thesis focuses on eight key dimensions: financial performance, valuation, competitive advantage, corporate governance, environmental, social, and governance (ESG) factors, management quality, industry trends, and regulatory compliance. These factors have been carefully chosen to be discussed in this thesis as the main criteria after conducting the aforementioned research. The author answers the investigative questions throughout the thesis which is followed by an explanation of the research methodology and ending with the conclusion and list of references.</p> <p>The research employs an approach comprised of desktop data collection as secondary research and interviews with employees of the investment management field as primary research. The secondary data was gathered from e-books, academic articles, company reports and journals. The primary research consisted of an interview that have been conducted with 6 individuals relevant to the topic as they are directly involved in the investment management field. As a result, the findings from the interviews supported the secondary research and helped answer the investigative questions.</p> <p>The author concludes by synthesizing findings across these criteria, offering the highlights of what has been discussed concerning each criterion. Criteria such as financial performance, valuation, the right corporate governance and management quality and level of adaptability to regulations were found to be of paramount importance when selecting companies. Factors relating to competitive advantage and industry trends were just as vital but often deemed not a direct priority. ESG is found to be rising in interest overall and the interviewees supported the aspect of ESG and robust investing strongly.</p> <p>By understanding the dynamic interplay of financial, strategic, and ethical factors, investors and individuals with any kind of interest in this field, professional or otherwise, can educate themselves more on the perspective of an investment management firm and other companies can get more insight into how these investment companies decide and perceive businesses around them.</p>
<b>Key words</b> Investment criteria, investment management company, financial performance, valuation, competitive edge, market trends, ESG, corporate governance, management

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# 1 Introduction

This is a research type of a Bachelor's thesis for the Degree Programme in International Business in the major specialization of Finance in the Haaga-Helia University of Applied Sciences. In this chapter, the focus will be on the background of the topic, introducing the research and investigative questions, the demarcation, benefits and key concepts of this thesis. Those points will be presented in that respective order for the purpose of higher clarity. This is essentially an overview of the thesis topic and the objectives concerning it.

## 1.1 Background to the topic

The act of investing is a relevant topic for many, it spans around the globe and has gotten popular throughout the years no matter where one may be. Hundreds of various financial service companies manage trillions and the involvement of these firms only keeps rising. For example, BlackRock – the largest asset management company in the world - manages 9.4 trillion USD as of the second quarter of 2023 (Statista 2023). That is larger than the GDP of any country other than the USA and China; Japan comes in 3rd at 4.4 trillion USD (Forbes India 2023). How do companies such as these operate with large sums of money and do what they do?

In today's world, investment and financial service companies are directly involved in the economy of the world with a lot of influence. However, for many it is still unclear as to how these companies operate in terms of company/stock selection in order to profit and grow to obscenely successful sizes. It is a meticulous process involving a variety of factors and decisions at the end of which a company decides to select the "product" and work with it.

Nowadays financial data flows at the speed of light and global markets react instantaneously to economic indicators, it is essential to recognize that the precision and diligence exercised in selecting investments can spell the difference between financial triumph and tribulation. Moreover, as the world grapples with socio-economic challenges and a growing clamour for ethical and sustainable business practices, investment choices have taken on moral and ethical dimensions. The rise of ESG criteria in investment strategies represents a testament to the recognition that investments must not only be profitable but also responsible (Forbes 2023).

The author hopes to analyse the factors that are considered by an investment management firm in their process of selection, not only for the purpose of the thesis but also for personal growth and due to interest in the field.

## 1.2 Research question OR Project Objective

This thesis aims to point out and explain the criteria of how investment management companies select products to manage. The outcome of the thesis is better knowledgeability of what decisions and information is necessary to these firms so that listed or unlisted companies understand what these firms are looking for as well as for people with interest in this field to be familiar with this topic.

The international aspect required by degree programme of all theses is covered by the nature of investment management which is involved on a global scale between numerous markets, currencies, platforms and countries.

The research question (RQ) is “What are the criteria behind the selection of investments by investment management companies?”. The research question was divided into investigative questions (IQ) as follows:

IQ 1. What financial criteria are involved in the selection of investments?

IQ 2. To what extent do social influence and competitive edge influence the selection of investments?

IQ 3. What are the other potential factors that influence the selection of investments?

Table 1 below presents the investigative questions, theoretical framework components, research methods and outcomes for each investigative question.

Table 1: Overlay matrix

Investigative Questions	Theoretical Framework	Research Methods	Outcomes
IQ 1. What financial criteria are involved in the selection of investments?	Factors concerning financial performance	Desktop research, interviews	Factors related to company performance and value (chapter 2.1)
IQ 2. To what extent do social influence and competitive edge influence the selection of investments?	Factors concerning competition, governance and ethical standards	Desktop research, interviews	Factors related to society and competition (chapter 2.2)
IQ 3. What are the other potential factors that influence	Factors concerning trends and management	Desktop research, interviews	Other factors (chapter 2.3)

Investigative Questions	Theoretical Framework	Research Methods	Outcomes
the selection of investments?			

### 1.3 Demarcation

The author will focus on the various criteria of investment management companies when selecting companies to invest in, defining them, explaining them and analysing them. The focus is not limited to a specific type of investment management or specific region.

Aspects such as bias as to which factors are more important than the others, historical background to investment management and comparative analysis between different regions is not a part of this thesis. Similarly, a comparison of investment management companies and other processes or intricacies of the investment management field will be excluded.

This thesis does not address retail investors, but instead focuses on the criteria relating to public and private companies. Also, it does not address if these methods of investing are applicable to retail investors, as the thesis focuses on companies, rather than individuals. The thesis also does not focus on alternate assets like commodities, cryptocurrencies and etc. The researched methods should not be interpreted to be directly applicable to investing, but can rather be used as a way to inform oneself.

Additionally, the interviewed people are not liable as the information they have provided is strictly in an educational capacity and cannot be considered as financial advice.

### 1.4 Benefits

This thesis holds the potential to yield a number of benefits. It serves as a valuable resource for investors, offering insights as to how investment management firms work which may allow them to understand investing as a whole in a better way. Companies will be able to understand how to function in ways that may help them work together with investment management firms. Last but not least, individuals interested in entering the field of investment management on a career level or individuals that wish to expand on their knowledge of investing as a personal interest can learn more vital information on the subject. Once again, the aim of the thesis is to inform and any information mentioned is not financial advice.

## 1.5 Key concepts

**Investment criteria** are the defined set of parameters used by financial and strategic investors to assess an investment opportunity. They make the process of sourcing and qualifying new opportunities more efficient (Health Inequalities 2019).

**Investment management company/firm** invest their clients' money by selecting investments ranging from fast-growing and risky products to safe and slow-growing ones. The right selection would then be a range of products that achieves the return that the client needs combined with a level of risk that the client finds comfortable (Bright Network 2023).

**Financial performance** is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period (Investopedia 2023).

**Valuation** refers to the process of determining the present value of a company, investment or an asset (Corporate Finance Institute 2023).

**Competitive edge** is anything that gives a company an advantage over its competitors, helping it attract more customers and grow its market share (BDC 2023).

**Market trend** is the direction of the asset's price over time (Wulandari 2023).

**Environmental, social and governance (ESG)** refers to a collection of corporate performance evaluation criteria that assess the robustness of a company's governance mechanisms and its ability to effectively manage its environmental and social impacts (Gartner 2023).

**Corporate governance** is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community (Investopedia 2023).

**Technical analysis** is financial analysis that uses historical patterns and statistics in market data to identify trends and make predictions (Montevirgen 2023).

## 2 Theoretical framework

This chapter presents the theoretical framework of the thesis as well as answer the main research question. Besides the theoretical framework, the investigative questions regarding the investment criteria will be discussed in subchapters throughout the chapter. Factors concerning financial performance, structural, societal and other factors like trends and management will be discussed in the aforementioned subchapters.



Figure 1. Theoretical Framework

Figure 1 depicts the theoretical framework of this thesis showing the numerous factors relating to financial performance, society, structure and others all relating to the central topic of the criteria that investment management companies use.



## 2.1 Factors Concerning Financial Performance

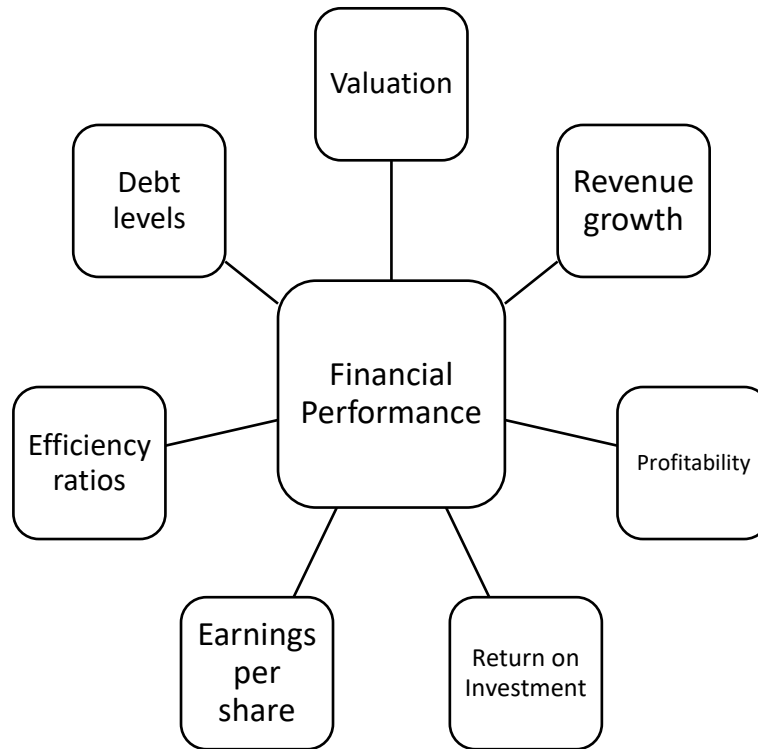


Figure 2. Financial Performance Factors

Figure 2 shows the factors that are a part of financial performance.

This chapter aims to help answer the first investigative question of the thesis. It concerns the financial criteria that investment management firms take into account when making their decisions. This criterion encapsulates a suite of quantitative metrics that collectively offer profound insights into a company's fiscal health, operational efficiency, and overall viability. In the intricate world of investment management, the evaluation of financial performance is a multi-faceted process that delves into various key aspects (CFI Team 2023).

### 2.1.1 Financial Performance

One critical dimension of financial performance that investment managers scrutinize is revenue growth. A company's ability to sustain and escalate its revenue over time is often viewed as a positive signal. This growth signifies increasing demand for the company's products or services, thereby suggesting the potential for higher future profits (Causal 2023). Profitability is another fundamental measure that occupies a prominent place in the assessment of financial performance. Investment managers meticulously examine a company's net income and profit margins to gauge its capacity to generate earnings. A company demonstrating a healthy level of profitability is

naturally perceived as more attractive to investors. Shareholders are beneficiaries of profits which is why they are attracted to solid profitability (Hofstrand 2019).

Another critical metric is the return on investment (ROI), which serves as a linchpin metric in financial performance evaluation. This metric is a mathematical formula that investors can use to evaluate their investments and judge how well a particular investment has performed compared to others. ROI is most commonly calculated by dividing the net income by the total cost of the investment and multiplying by 100 (Gillis 2021). By delineating the return on an investment relative to its cost, ROI offers insights into how efficiently a company utilizes its capital to generate returns. Historical and anticipated future ROI figures are scrutinized to assess a company's effectiveness in this regard (Indeed 2022). Earnings per share (EPS) is a key indicator that investors and analysts closely monitor. It is derived by dividing a company's net income by the number of outstanding shares, providing a per-share perspective on profitability. This metric holds significance in the broader context of financial performance assessment (Economic Times 2023).

Debt levels are a critical facet of financial performance analysis. High levels of debt can pose financial risks, as a company might struggle with interest payments and other responsibilities. Investment managers pay close attention to metrics like the debt-to-equity ratio and overall debt levels to evaluate a company's financial risk (Ahern 2023). Positive cash flow is essential for the day-to-day operations of a business, and investment managers carefully scrutinize a company's operating, investing, and financing cash flows. This analysis helps assess the company's ability to meet short-term obligations and fund growth initiatives (Boex 2015).

Dividends are another important matter to mention. A dividend is a share of profits/earnings that a company pays out to its shareholders and owners. Dividend history is a pertinent consideration for income-focused investors. A consistent or increasing dividend payout over time is often seen as indicative of a financially stable company with a strong cash position (Vipond 2023).

Efficiency ratios, such as return on assets (ROA, net income divided by total assets) and return on equity (ROE, net income divided by shareholder equity), contribute to the nuanced evaluation of financial performance by offering insights into how efficiently a company deploys its assets and equity to generate profits (Gallo 2016). The market share within an industry is another dimension that investment managers explore. It is a portion of sales in related to an industry or product that belongs to a certain company. A growing or dominant market share can signal a company's competitive strength, influencing investment decisions (Salvucci 2022). Lastly, financial forecasting emerges as a crucial aspect of financial performance evaluation. Investment managers consider a company's future financial projections, using various models to estimate forthcoming revenues, expenses, and profits (Ali 2020).

### 2.1.2 Valuation

The analysis of a company's valuation is a fundamental and intricate process that significantly influences investment decisions. Investment management companies employ various financial performance metrics and valuation methods to assess the potential risks and returns associated with investing in a particular company. This comprehensive valuation analysis is crucial for several key reasons.

Firstly, valuation analysis plays a pivotal role in risk management. By scrutinizing a company's valuation, investment managers can identify potential risks such as overvaluation or undervaluation, allowing them to make informed decisions about the risk-return profile of an investment (European Central Bank 2021). This awareness is essential for preserving the integrity of investment portfolios and avoiding unnecessary exposure to market volatility.

Secondly, valuation analysis is integral to evaluating the performance of investments. By comparing the initial valuation at the time of investment to the current market value, investment managers can gauge the success of their investment decisions (Schmidt 2023). This performance evaluation is critical for refining investment strategies, optimizing returns, and ensuring the overall health of investment portfolios. Informed decision-making is another key outcome of valuation analysis. Investment managers rely on valuation metrics such as the Price-to-Earnings (P/E) ratio, Price-to-Book (P/B) ratio, and discounted cash flow (DCF) analysis to identify opportunities where a company's stock may be undervalued or overvalued (Misamore 2017). This information enables investment managers to make strategic decisions that align with their investment objectives and client expectations.

Valuation analysis also plays a crucial role in asset allocation. Investment managers use insights from valuation metrics to determine the allocation of assets within a portfolio. This strategic approach helps optimize the risk and return characteristics of the portfolio and ensures a well-balanced and diversified investment strategy (Gutmann 2013, 180).

Client communication is facilitated through valuation analysis. Clients, whether individuals or institutions, seek transparency and understanding behind investment decisions. By articulating the rationale based on valuation analysis, investment managers can communicate effectively, build trust, and align investment strategies with client goals. Furthermore, valuation analysis assists in market timing by identifying periods when markets or specific sectors are overvalued or undervalued (Gutmann 2013, 243). This strategic knowledge empowers investment managers to make timely decisions regarding when to enter or exit markets, contributing to overall portfolio performance.

The importance of valuation analysis extends to the long-term sustainability of investments. Identifying undervalued companies with sustainable growth potential and recognizing overvalued companies at risk of market corrections are critical elements in achieving sustained, positive returns over time.

## **2.2 Factors Concerning Competition, Governance and Society**

The purpose of this chapter is to answer the second investigative question which is pinpointing and explaining factors that relate to the competitive edge, corporate governance and ESG metrics of potential companies that investment management firms may be interested in investing in. These factors are just as vital as the ones in the previous chapter and at times even more so.

### **2.2.1 Competitive Advantage**

In the dynamic realm of investment management, the process of selecting investments transcends mere financial analysis. It involves a strategic orientation toward companies that possess a distinct competitive advantage. The decision-making process can also be influenced by varying investment strategies between companies. Furthermore, investment companies offer different products that may prioritize different criteria based on the theme of the product. For example, an investment firm may offer specific products that are designed to appeal to different clients.

Sustainable returns stand out as a primary rationale for favouring companies with a competitive advantage. An example of companies that have this quality more often than not are blue-chip companies. These companies are internationally recognized, well established and financially sound which often comes from competitive advantage (Schmidt 2023). Endowed with unique qualities—be it a robust brand, cutting-edge technology, operational efficiencies, or exclusive access to resources—these companies exhibit a capacity for consistent outperformance. This distinctiveness lays the foundation for sustainable returns over the long term. Risk mitigation is another pivotal motivation for investment managers to seek out companies with a competitive edge. These companies' unique market positions serve as buffers during economic downturns or industry challenges. Integrating such companies into portfolios becomes a strategic move to navigate risk more effectively, ultimately safeguarding client investments.

Resilience in market fluctuations is a critical consideration for investment managers evaluating companies with competitive advantages. Whether demonstrated through strong brand loyalty or a unique market niche, these companies showcase resilience in the face of cyclical economic shifts, maintaining revenue and profitability even in challenging market conditions and can thus be used to hedge against unfavourable or unexpected market conditions (Budd 2020). Consistent revenue and profitability further underscore the significance of competitive advantage. Such an advantage

positions companies to sustain consistent revenue streams and profitability. Their ability to command premium prices, secure customer loyalty, and manage costs efficiently contributes to stable and predictable financial performance, aligning with the objectives of investment managers seeking reliable returns.

Adaptability to change is a dynamic aspect associated with companies possessing competitive edges. Beyond a static notion of advantage, these companies excel in innovation. Their adaptability to technological advancements, changing consumer preferences, and industry trends represents a valuable asset (Wielen 2023). This adaptability ensures these companies remain dynamic and forward-looking investments for managers.

Brand strength and customer loyalty constitute intangible assets integral to a competitive advantage. Recognizing the enduring value in companies with trusted brands and loyal customer bases (Daye 2023), investment managers see these factors as contributors to sustained success, making them attractive elements in the investment decision-making process. Market leadership emerges as a strategic consideration, as companies with competitive advantages often become market leaders. Understanding the significance of investing in these leaders, investment managers recognize their substantial influence within industries and their role in shaping industry trends and dynamics, ultimately contributing to the overall strength of a portfolio.

Long-term value creation aligns with the essence of investment management. Companies with sustainable competitive advantages position themselves as vehicles for enduring value creation. This aligns with the role of investment managers as stewards of long-term financial success for their clients. Investor confidence is a consequential outcome of investing in companies with proven competitive advantages. Clients and stakeholders are more likely to trust investment managers who demonstrate a strategic focus on companies with a history of sustained success and a clear competitive position. This confidence forms the bedrock of success for investment management firms (Mitchell 2023).

### **2.2.2 Corporate Governance**

The significance of corporate governance looms large, steering the decisions of investment management companies when selecting potential investments. The term "corporate governance" encapsulates the intricate system of rules, practices, and processes that direct and control a company.

At the forefront of considerations for investment managers is risk assessment. The structures and practices associated with corporate governance serve as a lens through which a company's risk management processes are evaluated. Investment management companies meticulously

scrutinize how a company identifies, assesses, and manages risks. A robust corporate governance framework becomes a beacon, signalling a company's commitment to transparent risk management—a quality that elevates its appeal to investors.

Transparency and disclosure emerge as integral components influenced by corporate governance. Robust governance practices foster an environment of transparency and encourage comprehensive disclosure. Investment managers gravitate towards companies that provide clear and detailed information about their financial health, operational strategies, and long-term plans. Transparency not only builds trust but also reduces information asymmetry, empowering investment managers to make well-informed decisions (Compliance 2023). The composition and independence of the board of directors play a pivotal role in the eyes of investment managers. A company boasting a balanced and independent board is perceived more favourably. The presence of independent directors acts as a safeguard, ensuring that decisions align with the best interests of shareholders (Kelly 2023, 1-2). This governance aspect adds a layer of assurance to investment managers evaluating potential investments. Alignment of interests is a key consideration shaped by corporate governance structures. Investment management firms seek companies where the interests of management harmonize with those of shareholders. Mechanisms such as equity-based compensation for executives become pivotal in ensuring this alignment. Investment managers favour companies where leadership incentives are intricately tied to the company's performance and the creation of long-term shareholder value.

Ethical practices and social responsibility constitute an extension of corporate governance considerations. Investment managers view a company's commitment to ethical conduct and social responsibility as integral components of its governance. Companies with strong ethical frameworks are perceived as more sustainable and less prone to reputational risks, aligning with the values of responsible investment practices (Santa Clara University 2023). The protection of shareholder rights stands as a crucial dimension of corporate governance. Investment managers critically evaluate a company's stance on safeguarding shareholder rights, including aspects like voting rights, access to information, and mechanisms for addressing shareholder concerns. This ensures that the interests of shareholders are duly respected. Audit and internal controls form a cornerstone in the evaluation of a company's governance effectiveness. A robust governance framework ensures the effectiveness of a company's audit processes and internal controls. This, in turn, instils confidence in investment managers regarding the reliability of financial statements and the prevention of fraud.

Succession planning emerges as a forward-looking governance consideration. Investment managers assess whether a company has a well-defined and transparent succession plan in place.

Clarity in succession planning becomes crucial for ensuring continuity and stability in leadership, mitigating uncertainties for investors (Faster Capital 2023). Legal and regulatory compliance is a fundamental aspect that falls under the purview of corporate governance. Investment managers favour companies that demonstrate a commitment to compliance with laws and regulations. This commitment minimizes legal risks and contributes to the overall governance profile of a company. Long-term sustainability becomes an increasingly important aspect of corporate governance for many investment management firms. Companies integrating environmental, social, and governance (ESG) factors into their governance frameworks are particularly attractive to investors seeking sustainable and responsible investment opportunities.

### **2.2.3 Environmental, Social and Governance (ESG)**

There is a discernible shift towards the preference for companies that actively integrate Environmental, Social, and Governance (ESG) factors into their business practices (Deutsche Bank 2023). This trend aligns with a broader movement towards responsible and sustainable investing, reflecting a nuanced understanding of the interconnectedness between financial performance and broader ethical, social, and environmental considerations. Investment management firms are increasingly drawn to ESG integration for several compelling reasons, each playing a pivotal role in shaping the investment landscape (Oncioiu & al. 2020, 3-4)

Risk mitigation, as one of the primary motivations for favouring ESG integration, is deeply rooted in the proactive approach it offers. Companies that earnestly address ESG considerations demonstrate an enhanced capacity to identify and mitigate various risks. This spans environmental risks such as climate change and resource scarcity, social risks encompassing labour practices and community relations, and governance risks related to ethical conduct and transparency. Investment managers view ESG integration as a strategic means of fortifying a company's resilience through comprehensive risk management. Long-term performance, supported by studies and empirical evidence, stands as a compelling argument for investment managers. Companies exhibiting strong ESG performance often demonstrate superior long-term financial performance (Montenegro 2023). Investment managers are drawn to the notion that a commitment to sustainability and responsible business practices correlates with resilience and longevity in the competitive business landscape. Client demand, another driving force behind the surge in ESG integration, reflects the changing preferences of investors. Institutional investors and individual clients alike are expressing a growing inclination towards investments that align with their values. As global challenges like climate change and social inequality gain prominence in public discourse, there is a burgeoning demand for investments that consider ESG factors. Investment management firms attuned to these

preferences are integrating ESG criteria into their investment strategies to meet the evolving demands of their clients.

Regulatory compliance and reporting, reflecting the evolving regulatory landscape, is a crucial consideration. Regulatory bodies are increasingly emphasizing ESG considerations, and disclosure requirements are becoming more stringent. Investment managers recognize the importance of investing in companies that proactively engage in ESG reporting and compliance. Companies adhering to ESG standards position themselves favourably to navigate regulatory changes seamlessly. Enhanced brand and reputation, viewed as valuable intangible assets, form a compelling reason for investment managers to favour ESG integration. Companies that prioritize ESG factors tend to build stronger brand equity and reputation (Peterdy 2023). Investment managers understand that a positive ESG profile can enhance the overall quality and appeal of an investment portfolio.

Access to capital, underlining the financial aspect, is a significant incentive for companies with strong ESG credentials. Such companies may find it easier to access capital, including sustainable or green financing. Investment management firms recognize that a commitment to ESG principles enhances a company's access to diverse funding sources, thereby ensuring financial stability and flexibility. Innovation and adaptability, intricately linked with ESG integration, underscore the forward-looking nature of companies actively considering environmental and social impacts. These companies are more likely to innovate and adapt to changing market conditions, making them attractive to investment managers seeking companies capable of navigating evolving trends and technologies. Employee engagement and productivity, vital components of organizational success, are positively influenced by strong ESG practices. Companies prioritizing ESG factors tend to attract and retain talented employees increasingly concerned about the ethical and social impact of their work (Dentons 2021). Employee satisfaction and productivity, deemed crucial to a company's overall success, become key considerations for investment managers.

Stakeholder relations, emphasizing the interconnectedness of business and community, are bolstered by ESG considerations. Companies prioritizing ESG often have better relationships with stakeholders, including customers, suppliers, and the communities in which they operate. Positive stakeholder relations are recognized by investment managers as vital in fostering a supportive and sustainable business environment (Taylor & Collins 2022). Global challenges and social responsibility, reflecting a broader ethical stance, acknowledge the role of corporations in addressing global challenges such as climate change, social inequality, and diversity. Investment management firms recognize that companies actively contributing to societal well-being and taking responsibility for their environmental impact are viewed as partners in creating a more sustainable and equitable future.



## **2.3 Other Crucial Factors**

In addition to financial performance and societal factors, other factors also carry a similar weight in importance. These are factors such as the quality of management at potential companies, how the industry trends match those companies at the time and if the regulations favour these potential companies.

### **2.3.1 Management Quality**

Few factors carry as much weight as the quality of a company's management. Investment management firms recognize that the effectiveness, competence, and ethical conduct of a management team significantly shape the trajectory of a company and, consequently, influence investment decisions.

Strategic decision-making, the cornerstone of effective management, holds profound implications for a company's performance and future prospects. Investment managers meticulously assess the strategic decision-making capabilities of a company's management team, ensuring that their choices align seamlessly with the long-term interests of shareholders (ET Money 2023). The ability to navigate complexities and make decisions that foster sustainable growth becomes a key criterion for investment consideration. The execution of business strategy emerges as another critical facet where management quality comes to the fore. A well-formulated business strategy is only as effective as its execution. Investment management companies scrutinize the ability of a company's management to translate strategic plans into tangible actions. The effectiveness of execution contributes not only to the company's competitive positioning but also to its overall financial performance.

Financial stewardship, a pillar of stability and growth, becomes a focal point for investment managers evaluating management quality. Scrutinizing the financial stewardship of a company's management involves assessing their ability to manage resources efficiently, allocate capital effectively, and maintain financial discipline (Belsom, Chandler, Horne & Barron 2021, 3-5). Sound financial management is a testament to a management team's capability to safeguard and enhance shareholder value. Adaptability to market changes forms a crucial consideration in the dynamic business landscape. Successful companies must exhibit agility and adaptability to navigate changing market conditions. Investment managers seek companies whose management teams demonstrate a proactive approach, enabling them to capitalize on opportunities, navigate challenges, and steer the company toward sustained success.

Risk management, a key responsibility of corporate leadership, is integral to the evaluation process. Effective risk management ensures the resilience of the company and protects the interests

of investors. Investment management firms carefully assess how well a management team identifies, assesses, and mitigates risks (AnalystPrep 2023). A robust risk management framework becomes a testament to the management's foresight and strategic acumen. The link between management quality and corporate governance is a nuanced consideration for investment managers. They evaluate the governance structure, the independence of the board of directors, and the overall ethical conduct of the management. Strong corporate governance, intertwined with effective leadership, fosters transparency and accountability, contributing to the overall health of the organization.

Communication and transparency play a pivotal role in building trust between a company and its investors. Investment managers value management teams that communicate effectively, providing timely and accurate information to shareholders. Transparent communication enhances the overall quality of decision-making and investor confidence. Employee relations and talent management, acknowledged as crucial factors for a company's success, are scrutinized by investment managers. They assess how well the management team handles employee relations, talent acquisition, and retention. A skilled and motivated workforce is a valuable asset that contributes significantly to a company's competitiveness. Ethical conduct and corporate social responsibility (CSR) represent the ethical dimensions of leadership. These considerations are increasingly important for investors, and investment management companies favour companies whose management teams prioritize ethical business practices and engage in socially responsible initiatives (Paine 1994). Ethical behaviour not only contributes to a positive corporate image but also reduces reputational risks.

The effectiveness of a management team in succession planning is a forward-looking aspect that investment managers evaluate. Companies with well-defined succession plans reduce uncertainties and contribute to the long-term stability of the organization. This planning ensures a smooth transition of leadership, safeguarding the company's continuity and resilience. Investor relations, where management quality plays a crucial role, involves engaging with investors, responding to inquiries, and providing a clear understanding of the company's strategic direction (Karlsson & Westberg 2023). Effective investor relations contribute to a positive perception of the company in financial markets, influencing investment decisions.

### **2.3.2 Industry Trends**

Industry and market trends are crucial considerations for investment management firms when selecting companies to invest in. These trends provide valuable insights into the broader economic landscape and the specific conditions facing different sectors (Business Queensland 2023).

Risk assessment, a foundational pillar of investment management, finds its compass in industry and market trends. The intricate dance of global markets and sector-specific dynamics provides investment managers with valuable insights to assess the overall risk associated with an investment. A nuanced understanding of the macroeconomic environment allows them to identify potential risks and opportunities, paving the way for the construction of resilient and well-balanced investment portfolios. Within the ebb and flow of industry dynamics, cyclical and structural shifts come to the fore. Trends, as revealed through diligent analysis, unveil both temporary cyclical shifts and indicative longer-term structural changes within industries. Adaptation to or anticipation of these shifts becomes a strategic imperative, crucial for optimizing investment returns and effectively managing risks in an ever-evolving economic landscape.

Industry and market trends are a window into the profitability and growth potential of different sectors. Investment management firms actively seek sectors that exhibit strong growth prospects, where companies are well-positioned to capitalize on emerging opportunities. The identification of these trends becomes instrumental in shaping the overall performance of investment portfolios, aligning them with strategic growth objectives. Understanding competitive landscape is another dimension illuminated by industry trends (LaMarco 2018). Investment managers leverage these insights to identify companies gaining market share, innovating, and adeptly responding to changing customer preferences. Companies positioned favourably within their industries emerge as more attractive investment options, adding a layer of strategic depth to the investment decision-making process.

Global economic conditions, intricately linked to industry and market trends, form a crucial aspect of the investment landscape. Investment managers meticulously monitor trends in key economic indicators, including GDP growth, inflation rates, and interest rates. These indicators serve as contextual cues, aiding in the assessment of the overall economic health and providing insights into potential challenges or opportunities for specific industries (Twin 2023).

The deployment of sector rotation strategies is a tactical approach adopted by investment management firms based on prevailing industry and market trends. Through dynamic adjustments of portfolio allocations in response to changing market conditions, managers aim to capitalize on trends and optimize returns. This strategy encapsulates the adaptability required in navigating the dynamic investment landscape. Technological advancements represent a transformative force within industries. Investment managers keenly observe trends related to technological innovation, recognizing that these trends can create new opportunities and disrupt existing business models (BlackRock 2023). Companies at the forefront of technological advancements stand out as attractive investment prospects in the eyes of discerning investment managers. Evolving consumer

behaviour and preferences find reflection in industry and market trends. Understanding these trends is not merely an exercise in market observation; it is a strategic imperative for companies seeking to effectively meet consumer demands. Investment managers favour companies that demonstrate a keen understanding of and responsiveness to changing consumer trends, recognizing the intrinsic value in aligning with the pulse of the market.

Regulatory changes, often catalysts of industry transformation, are closely monitored by investment managers (KPMG 2012, 2-4). These changes influence industry trends, and companies capable of navigating these changes effectively and adapting to new compliance requirements are viewed more favourably in the eyes of vigilant investment managers. Globalization and trade dynamics, in the interconnected world of finance, add yet another layer of complexity to industry and market trends. Investment management firms consider trends related to globalization, trade agreements, geopolitical events, and global supply chain dynamics. Awareness of these trends becomes a strategic advantage, enabling managers to anticipate potential risks and opportunities associated with global economic integration.

### **2.3.3 Regulations**

Last but not least, regulations play a vital role in the decision-making process of investment management firms when choosing companies to invest in. The regulatory environment has a profound impact on the operations, compliance, and overall risk profile of companies. Here are key reasons why regulations matter in the investment decision-making process:

Legal compliance, the cornerstone of corporate operations, establishes the boundaries within which companies operate. Investment management firms place a premium on companies that exhibit a steadfast commitment to legal compliance. This commitment spans adherence to securities laws, financial reporting requirements, and other regulations relevant to their industry. Compliance is not merely a legal requirement; it is fundamental to maintaining the integrity of investments and ensuring that companies operate within the ethical and legal norms of the financial landscape (Rao & Kumar 2021). The intimate connection between regulatory compliance and risk mitigation is a focal point for investment managers. The regulatory landscape is meticulously scrutinized to identify potential legal and regulatory risks associated with a company. Companies with robust compliance programs, coupled with proactive measures in addressing regulatory requirements, are perceived as having lower legal risks. Thus, compliance becomes an integral component of the broader risk management strategy employed by investment managers.

Financial reporting and transparency, mandated by regulations, emerge as vital considerations for investment managers (Docherty 2022). Accurate and transparent financial information is the

bedrock upon which informed investment decisions are made. Companies that adhere to mandated reporting standards not only enhance transparency but also facilitate a more accurate assessment of their financial health. For investment managers, access to reliable financial data is pivotal in constructing well-informed and resilient investment portfolios.

Investor protection is a core objective of regulations, and investment management firms prioritize companies that align with this objective. It is woven into the fabric of investment decisions, with a focus on companies that provide clear and comprehensive information to investors and uphold standards of transparency. Companies that prioritize investor protection are viewed favourably, as their commitment aligns with the overarching goal of safeguarding the interests of those investing in the market. Ethical business practices, guided by regulatory standards, form another critical dimension for investment managers. Regulations often address ethical considerations and set standards for corporate governance. Investment managers actively seek companies that not only comply with legal requirements but also embrace ethical business practices. Ethical behaviour is not only a legal requirement but also contributes to long-term sustainability and a positive corporate image, factors that resonate with the ethical considerations of investment management firms (Tirumandyam & Kanchan 2011, 5-7).

The growing emphasis on Environmental, Social, and Governance (ESG) Compliance is a reflection of evolving regulations encouraging or mandating companies to consider ESG criteria. Investment management firms, especially those committed to sustainable and responsible investing, prioritize companies that integrate ESG considerations into their business practices. This aligns with the broader trend of responsible investing, where environmental, social, and governance factors are integral considerations (Marquette 2023).

Regulations extend their influence to shaping market access and entry barriers. Investment managers carefully assess regulatory conditions to understand how they may impact a company's market position. Companies operating in regulated markets may have advantages or face challenges that need to be considered in the investment decision-making process. The regulatory environment becomes a lens through which investment managers evaluate market dynamics and the competitive landscape. Critical to preventing illicit financial activities, regulations related to Anti-Money Laundering (AML) and Know Your Customer (KYC) Compliance are given due emphasis (Funchess & Wojciech 2023). Investment managers favour companies that demonstrate robust AML and KYC practices. Companies with effective measures to combat money laundering and verify customer identities are seen as lower risk, contributing to a secure and transparent financial environment. Tax compliance, a direct link to a company's financial performance, is a dimension closely examined by investment managers. The adherence to tax regulations is assessed to gauge a

company's financial health. Companies with transparent and compliant tax practices are viewed favourably, as they align with principles of transparency and financial responsibility. In the ever-evolving landscape of finance, changes in the regulatory landscape assume paramount importance. Investment managers closely monitor regulatory changes, recognizing that new regulations or alterations to existing ones can have significant implications for industries and individual companies. Awareness of and adaptation to regulatory changes become crucial for navigating the investment landscape effectively.

### 3 Research Methods

This chapter explains the research methods implemented in order to compile the information presented in this thesis. The author used a combination of primary and secondary research. The primary research consisted of conducting interviews. Here is the research design figure to better understand the purpose of the chapter:

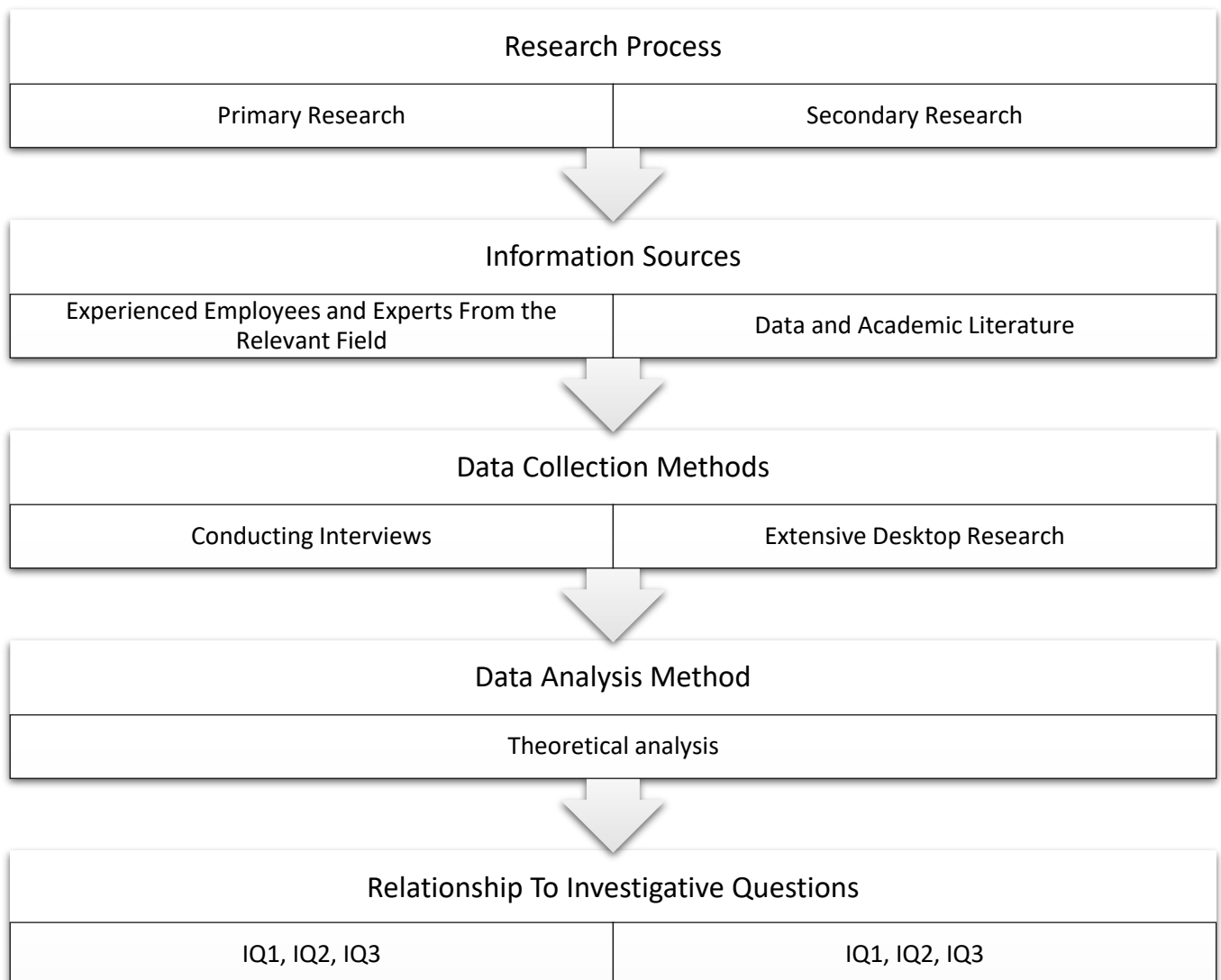


Figure 3. Research Design

#### 3.1 Dissecting the Research Design

The research consisted of primary and secondary research. The sources used to gather the information from are experienced employees and experts from the investment management field for primary research and data/academic insights from literature, reports and articles for secondary research.

The way the data was collected for primary research was by conducting interviews. The author has conducted 6 interviews with individuals relevant to the field. Note that 3 of the individuals wished to remain anonymous. A diagram representing the interviewees is shown below as well as the findings gathered during the interview process. For secondary research, the method of collection was to personally researching from desktop sources for a period of approximately 2 months.

The data analysis method was chosen to be theoretical analysis. The reason for this is because the author is not aiming to argue on which criteria mentioned in this thesis are more important than others, measuring or calculating any numerical data, or inferring on the opinion of the populace. The purpose of this thesis is to simply point out the criteria and explain why and how they are chosen in the decision making process. This thesis is designed to inform on the basics of the topic and answer the investigative questions accordingly.

The formulation of the thesis was constructed for the findings in the interviews to supplement the secondary research found in order to form a comprehensive list of investment management criteria and explain them. The interview findings assisted in expanding on a plethora of points throughout the thesis so that the end result could be viewed as a fusion of both types of research regarding all of the investigative questions.

### 3.2 Sample and Questions

Ateet Sanghavi	Investment Banker, Professor of Business
Meet Pandya	Investment Banker
Mohamad Ajaz Shafi	Managing Director/CEO
Niraj Thanki	Investment Banker/CoFounder
Vinay K Sharma	Managing Director
Aravindhan Mannai	Financial Controller

Figure 4. Interviewee Table

Figure 4 shows the list of interviewees and their respective specialised fields.

The following are the questions used in the interview:

Can you describe the typical industries or sectors that your firm focuses on for investments?

What criteria does your firm use to evaluate individual companies for potential investment?



Which financial metrics are particularly important in your firm's analysis of potential investments?

Can you provide examples of specific risk factors that are closely monitored during the investment analysis?

How does your firm approach the valuation of potential investments?

Can you provide insights into the methods or models used for company valuation?

To what extent does your firm consider ESG factors in its investment decisions?

Once an investment is made, how does your firm monitor the performance of the company?

### **3.3 Findings**

In delving into the investment strategies of various professionals, the author found a consistent thread in their approach to industry focus. A number of interviewees highlighted a diversified strategy, often spanning sectors like technology and healthcare for their innovation and growth potential. Some expressed a more specialized approach, honing in on industries aligned with global trends or their firm's expertise.

When it comes to evaluating companies, there was a clear emphasis on strong fundamentals, competitive positioning, and management quality. All of the interviewees stressed the importance of assessing financial performance, regulations, and sustainable competitive advantages. Qualitative factors, such as corporate culture, governance, and ESG practices, also emerged as key criteria in the evaluation process.

The discussion on financial metrics showcased a reliance on traditional indicators like the P/E ratio, free cash flow, and debt levels. Return on invested capital (ROIC) was frequently highlighted as a crucial metric. Additionally, there was recognition of the need to adapt metrics to industry specifics, such as same-store sales for retailers or subscriber growth for tech companies.

In addressing risk factors, interviewees commonly referenced geopolitical risks, market volatility, and regulatory changes as primary considerations. Operational risks, including supply chain disruptions and cybersecurity threats, were also noted. Interestingly, there was a growing acknowledgment of environmental risks and climate-related factors, reflecting an industry-wide trend toward sustainable investing.

Regarding the valuation of potential investments, respondents commonly spoke of employing a combination of discounted cash flow (DCF) analysis and comparable company analysis (CCA). Dynamic valuation processes, taking into account market conditions and industry trends, were

emphasized. Some interviewees integrated machine learning models and advanced analytics to gain additional insights into market dynamics.

The methods or models for company valuation were discussed with a focus on the fundamental role of DCF analysis. A relative valuation approach, comparing a company's multiples with industry peers, was also commonly cited.

The consideration of ESG factors emerged as an important aspect of investment decisions. Many interviewees expressed a commitment to integrating ESG considerations, actively seeking companies with strong environmental, social, and governance practices. Some firms employed dedicated ESG screening processes to align investments with sustainability goals, indicative of a broader industry shift towards responsible investing.

Finally, the discussion on monitoring the performance of invested companies revealed a rigorous and ongoing process. Interviewees commonly described regular financial reviews, communication with company management, and participation in shareholder meetings.

## 4 Conclusions

In conclusion, the landscape of investment management is intricate and multifaceted, requiring a nuanced approach that considers financial performance, valuation, strategic imperatives, governance, sustainability, leadership, market trends, and regulatory dynamics. Investment managers, as stewards of capital, navigate this complex terrain with precision, aiming not only for optimal returns but also for sustainable, responsible, and enduring success.

Financial performance serves as a comprehensive criterion, demanding a diverse array of financial metrics to construct a holistic understanding of a company's fiscal health and growth potential. This meticulous evaluation guides investment managers in making informed decisions about capital allocation, striving for optimal returns, and effectively managing risks. Valuation analysis emerges as an indispensable component, providing critical insights that guide investment managers in making sound decisions, managing risks effectively, and meeting the objectives of their clients and funds. As investment landscapes evolve, the ability to conduct thorough and informed valuation analysis remains a cornerstone of successful investment management.

Investing in companies with competitive advantages is deeply embedded in the philosophy of investment management. This strategic imperative extends beyond immediate gains, encapsulating a vision for long-term success, risk mitigation, and the creation of enduring value. Investment managers navigate the complexities of the financial landscape, aiming to optimize returns and ensure the resilience and prosperity of their clients' portfolios. Corporate governance emerges as a critical and comprehensive lens through which investment management companies assess the overall health, transparency, and ethical standing of potential investments. A robust governance structure becomes indicative of a company's commitment to sound business practices, effective risk management, and the creation of enduring shareholder value. ESG Integration marks a strategic evolution in investment practices. Driven by financial performance, risk management, client demand, regulatory trends, and a recognition of corporations' role in addressing global challenges, ESG integration aligns with evolving investor expectations. This shift signifies a commitment to a holistic approach that considers the broader impact of investments on society and the environment.

The quality of a company's management is a key determinant of its overall success and attractiveness to investment management companies. Effective leadership influences various aspects contributing to long-term shareholder value. By carefully assessing management quality, investment managers aim to make informed decisions aligned with their objectives of optimizing returns and managing risk. Industry and market trends emerge as invaluable compass points, providing a contextual understanding of the economic environment, guiding risk assessments, and informing strategies for constructing well-diversified and resilient investment portfolios. Staying attuned to these

trends is not merely a strategic advantage; it is an essential practice for making informed investment decisions that align with overarching objectives. Regulations matter profoundly as they provide a framework for legal compliance, risk mitigation, and ethical business practices. Companies operating within these bounds, embracing transparency, and proactively addressing regulatory requirements are viewed favourably. The regulatory framework becomes a guiding force ensuring the integrity and resilience of the investments managed by these firms.

The author found that the data gathered from the interviewees strongly supplemented the information found by secondary means of research. Collectively, these findings offer a comprehensive view of some of the important criteria of investment management firms when they select companies to invest in.

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